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**FISCAL IMPACT STATEMENT**

**LS 6509**

**BILL NUMBER:** SB 256

**NOTE PREPARED:** Jan 13, 2006

**BILL AMENDED:** Jan 12, 2006

**SUBJECT:** Credit for Excessive Residential Property Taxes.

**FIRST AUTHOR:** Sen. Landske

**FIRST SPONSOR:**

**BILL STATUS:** CR Adopted - 1<sup>st</sup> House

**FUNDS AFFECTED:**     **GENERAL**  
                              **DEDICATED**  
                              **FEDERAL**

**IMPACT:** Local

**Summary of Legislation:** (Amended) This bill provides the following with respect to the credit for excessive residential property taxes The bill:

- (1) Eliminates the county option as to whether to apply the credit;
- (2) Requires each county to adopt an ordinance to specify the types of residential property that are eligible for the credit (which may be any combination of homesteads, apartment complexes, or other residential rental property);
- (3) Eliminates the authority for a county to borrow to cover revenue reductions that result from application of the credit and to levy property taxes to repay the loans;
- (4) Requires the county auditor to notify each political subdivision of those reductions; and
- (5) For taxes payable in 2006, allows a county fiscal body to adopt an ordinance, before 2006 tax statements are issued, authorizing the credit under the law as it applied before the amendments under this act.

**Effective Date:** Upon passage.

**Explanation of State Expenditures:**

**Explanation of State Revenues:**

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** (Revised) *Qualified Residential Property:* Under current law, counties may

provide credits against the property tax liability of residential property if the net property tax on the property, after all other credits are applied, exceeds 2% of the property's gross assessed value. The credit equals the amount of tax that exceeds the 2% threshold. Residential property may include any combination of homesteads, apartment complexes, and other residential rental property at the county's discretion. No application is required to receive the credit. The county auditor must identify the eligible property and apply the credit.

Under this bill beginning with taxes paid in 2007, each county would be required to pay this credit. Counties could still choose the combination of residential property types to which the credit would apply, but must choose at least one type.

*Credit Funding:* Currently, counties are permitted to borrow money for a term of up to 5 years to pay for the credits. If the county borrows money in order to fund the credit, the civil taxing units and school corporations in the county are required to repay the loan and must impose a property tax levy to repay the debt. This levy is subject to the unit's maximum permissible levy limit and cannot be the basis for obtaining an excessive levy. If the property tax credits are granted, but not funded through a loan or other revenue source, the credits effectively reduce the tax collections that are distributed to local civil taxing units and school corporations with no replacement. So, if the county does not fund the credits, the entire cost of the credit is a local revenue reduction in the year granted.

Under this bill beginning with taxes paid in 2007, counties would not be permitted to borrow money to fund the credit. The credits would reduce revenues for local civil taxing units and school corporations in affected counties.

*Homesteads:* An analysis of 2003 parcel-level tax data indicates that there are 38 counties with at least one homestead that could qualify for the credit. Of those, only 16 counties had more than five qualifying homesteads. There are two counties, Lake and St. Joseph, where the credit for homesteads would be of any real significance at 31,800 and 3,000 credits, respectively. Also of note are Delaware (273) and Vigo (419) Counties.

The total of all potential credits on homesteads in 2003 was \$18.7 M. The notable counties are Lake (\$16.9 M), St. Joseph (\$1.5 M), Delaware (\$106,000), and Vigo (\$127,000). Lake and St. Joseph Counties make up the bulk of the potential 2003 credit at \$18.4 M. *The actual 2005 Lake County credit for homesteads amounted to \$13.4 M.*

*All Residential Property:* An analysis of 2003 parcel-level tax data indicates that there are 63 counties with qualifying residential property ( homesteads, apartment complexes, and other residential rental property) that could qualify for the credit.

The total of potential credits on all residential property in 2003 was \$127 M. The notable counties are Lake (\$64 M), St. Joseph (\$19.5 M), and Marion (\$21 M). Lake, Marion, and St. Joseph Counties account for the majority of the potential 2003 credit at \$104.5 M.

As a result of changing levies and tax rates, assessment adjustments, and more expensive new homes, the number and cost of the credits changes each year. In 2007, annual real property AV adjustments and the elimination of the remaining inventory are set to become effective. The number and cost of the credits in 2007 depend on (1) the types of property included by each county, (2) changes in the assessed value of real property, and (3) changes in tax rates. If the qualified residential assessed value grows faster than tax rates, then the cost

could be reduced. If the qualified residential assessed value grows slower than tax rates, then the cost could increase.

*2006 Credit:* Currently, a county that wishes to provide local property tax credits for residential property must adopt an ordinance allowing the credit by June 30<sup>th</sup> of the year before the year in which the taxes are payable. This bill would allow counties to adopt an ordinance to allow the credit against taxes paid in 2006 at anytime before the 2006 tax bills are issued. The fiscal impact of this provision is fully dependant on local action.

**State Agencies Affected:** Department of Local Government Finance.

**Local Agencies Affected:** Counties; Civil taxing units and school corporations in counties where the credit applies.

**Information Sources:** Lake County 2005 abstract; County auditor parcel-level property tax data.

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